

# Instructions for submitting the declaration form TSD

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# Annex 2. instructions

✘ TSD forms

✘ Annex 2 part 1a. examples

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## Annex 2 part 1a examples

Examples of declaring payments made to non-residents.

**As of 1 January 2022**, a natural person resident in a member state of the European Economic Area (EEA) (EU Member States, Iceland, Liechtenstein, and Norway) is entitled to benefit from basic exemption on a monthly basis like a resident of Estonia.

**The amendment to the Income Tax Act, which entered into force in 2022**, does not extend the circle of persons who are entitled to use basic exemption in Estonia, but allows them to do so on an ongoing basis. Until the end of 2021, residents of EEA member states had the right to submit an income tax return once a year in order to apply Estonia's basic exemption and obtain a refund in the amount of overpaid income tax.

Payments to non-residents should be declared by the payer (employer) in Annex 2 to the Form TSD. The right to apply Estonia's basic exemption can be used only in the case where residents of EEA member states:

- ✘ **submit an application** to the payer for the application of Estonia's basic exemption (up to 5000 euros with an one-off application, which can be amended), and
- ✘ **a certificate of residence** for tax purposes confirmed by the tax authority of the recipient's home country (! an EEA member state) has been entered in the database of the Tax and Customs Board before submitting Annex 2 to Form TSD.

Payers (employers) can check the validity of certificates of residence by **the inquiry of non-residency**.

Residents of third countries (for example Russia, Ukraine, USA, Canada etc.) are **not entitled to apply for the Estonia's basic exemption** neither on the Annex 2 to Form TSD nor the recipient's income tax return.

When calculating basic exemption, the same rules apply as in the case of resident natural persons:

- ✘ If the recipient of the payment receives taxable income from several withholding agents, they may submit the above-mentioned application to only one withholding agent of their choice.
- ✘ The amount of basic exemption may not be less than zero and more than 500. In their application, taxpayers may apply for deduction of a lower amount.
- ✘ The amount of the basic exemption declared may not exceed the amount of payment declared.
- ✘ The recipient taxpayer may, during a calendar year, amend their decision (application) on the amount of basic exemption, depending on the amount of income, but also cancel the application so that basic exemption does not apply.
- ✘ Payments made to the same non-resident in the same month are aggregated for the purpose of calculating the basic exemption.
- ✘ The amount of basic exemption not used in the previous calendar month is not taken into account in the following calendar month.
- ✘ If the payment is subject to basic exemption under a tax treaty, the type and amount of basic exemption is not filled in.

## Additional information

[Certificate of residency](#) [Taxation of non-residents' remuneration](#) [Calculation of basic exemption](#)

# 1. Non-resident employee's employment income amount under 1200 euros per month

## 1. Non-resident employee's employment income amount under 1200 euros per month

**Employee with an employment contract, wages or salaries or other similar payment under 1200 euros (payment type 120)**

*Juhani is a Finnish tax resident receiving **remuneration** according to an employment contract in the gross amount of **1000 euros** per month. He is not of Estonian retirement age. Juhani has submitted an **application to the employer to apply the basic exemption of 500 euros per month**.*

Mandatory funded **pension contributions** (II pillar) **cannot** be withheld from payments made to a non-resident recipient.

In case the payment is up to 1200 euros, the basic exemption amount is up to 500 euros (depending on the size of income and the application of the taxpayer). All payments made to the same person within a calendar month are added up.

As Juhani is tax resident of Finland (a Member State of the European Union), and a valid certificate of Juhani's tax residency confirmed by the Finnish Tax Administration has been submitted to the Estonian Tax and Customs Board, the Estonian employer may apply the basic exemption as prescribed in the Estonian Income Tax Act when calculating the income tax amount to be withheld from the Estonian taxable income.

### TAX CALCULATION

- ✓ Social tax  $1000 \times 33\% = 330$  euros
- ✓ Withheld unemployment insurance premium  $1000 \times 1.6\% = 16$  euros
- ✓ Employer's unemployment insurance premium  $1000 \times 0.8\% = 8$  euros
- ✓ Withheld income tax  $(1000 - 16 - 500) \times 20\% = 96.80$  euros

**Net payment of 887.20 euros** ( $1000 - 16 - 96.80$ ) is made to Juhani's bank account.

### DECLARATION IN ANNEX 2 OF FORM TSD

| Payment recipient           |                                |         | Payment |        | A1/E101 country |
|-----------------------------|--------------------------------|---------|---------|--------|-----------------|
| personal ID code in Estonia | name or first name and surname | country | type    | amount |                 |
| 2000                        | 2010                           | 2020    | 2030    | 2040   | 2060            |

|             |        |    |     |      |  |
|-------------|--------|----|-----|------|--|
| 12345678900 | Juhani | FI | 120 | 1000 |  |
|-------------|--------|----|-----|------|--|

|                              |            |   |                                |   |      |      |      |      |      |
|------------------------------|------------|---|--------------------------------|---|------|------|------|------|------|
| Amount subject to social tax | Social tax | Payment subject to unemployment insurance premium | Unemployment insurance premium | Unemployment insurance premium withheld | 2070 | 2110 | 2120 | 2130 | 2140 |
| 1000                         | 330        | 1000  | 16                             | 8                                       |      |      |      |      |      |

| Amount subject to income tax | Tax exemption |             | Income tax rate | Amount of income tax withheld |
|------------------------------|---------------|-------------|-----------------|-------------------------------|
|                              | type          | amount      |                 |                               |
| <b>2150</b>                  | <b>2154</b>   | <b>2155</b> | <b>2160</b>     | <b>2170</b>                   |
| 1000                         | 610           | 500         | 20              | 96.80                         |

#### EXCEPTIONS IN TAX CALCULATION

- ❖ If an employee is of the Estonian **retirement age**, unemployment insurance premium (code 2130) is not withheld at the rate of 1.6 % from payment (16 euros in the example).
- ❖ **If form A1** "Certificate concerning the social security legislation which applies to the holder" has been issued to an employee from a foreign country (country of the European Economic Area (Member State of the European Union (EU), Iceland, Liechtenstein, Norway) or Switzerland; Finland in the example) the country has to be indicated in code 2060 and **Estonian social tax is not calculated** in code 2110 (330 euros in the example) nor unemployment insurance premiums in code 2130 (16 euros in the example) nor in code 2140 (8 euros in the example).

#### BASIC EXEMPTION CANNOT BE APPLIED

- ❖ If there is **no valid certificate of tax residency** certified by the tax authorities of a country of the European Economic Area (Member State of the EU, Iceland, Liechtenstein, Norway; Finland in the example), it is not allowed to apply the basic exemption amount in codes 2154 and 2155 (500 euros in the example).
- ❖ Upon calculating the withheld income tax in Estonia, the basic exemption cannot be applied on payments made to tax residents of **third countries** (countries not mentioned in the previous clause).

## TAX CALCULATION

- ✓ Social tax  $1000 \times 33\% = 330$  euros
- ✓ Withheld unemployment insurance premium  $1000 \times 1.6\% = 16$  euros
- ✓ Employer's unemployment insurance premium  $1000 \times 0.8\% = 8$  euros
- ✓ Withheld income tax  $(1000 - 16) \times 20\% = 196.80$  euros
- ✓ Basic exemption cannot be applied and codes 2154 and 2155 are not filled in.

**Net payment of 787.20 euros** ( $1000 - 16 - 196.80$ ) is made to Juhani's bank account.

## 2. Non-resident employee's employment income amount between 1200 to 2100 euros per month

### 2. Non-resident employee's employment income amount between 1200 to 2100 euros per month

**Employee with an employment contract, wages or salaries or other similar payment between 1200 to 2100 euros (payment type 120)**

*Maris is a Latvian tax resident receiving **remuneration** for work according to an employment contract in the gross amount of **1300 euros** per month. In addition, he received **500 euros** of performance pay in March. A total of **1800 euros** was paid to Maris in connection with employment in March.*

*Maris has submitted an application to the employer for the application of the basic exemption in the amount of 500 euros per month. He is not of Estonian retirement age.*

**Mandatory funded pension contributions** (II pillar) **cannot be withheld** from payments made to a non-resident recipient.

**NB!** In case the total monthly income increases **from 1200 euros to 2100 euros**, the applicable basic exemption amount decreases according to the following formula:  $500 - 500 \div 900 \times (\text{payment amount} - 1200)$ .

Although the employee has applied for 500 euros of basic exemption, the employer has to decrease the

amount as prescribed by law.

In this example, the basic tax exemption amount is 166.67 euros (500-500÷900(1800-1200)).

Since Latvia is a Member State of the EU, the Estonian employer has the right to deduct the Estonian basic exemption pursuant to Estonian legislation when calculating the income tax amount on payment subject to income tax made to a non-resident in Estonia, provided that a **valid certificate of tax residency** confirmed by the Latvian tax authorities has been submitted to the Tax and Customs Board.

#### TAX CALCULATION

- ✓ Social tax  $1800 \times 33\% = 594$  euros
- ✓ Withheld unemployment insurance premium  $1800 \times 1.6\% = 28.80$  euros
- ✓ Employer's unemployment insurance premium  $1800 \times 0.8\% = 14.40$  euros
- ✓ Withheld income tax  $(1800 - 28.80 - 166.67) \times 20\% = 320.91$  euros

**Net payment of 1450.29 euros** (1800-28.8-320.91) is made to Maris's bank account.

#### DECLARATION IN ANNEX 2 OF FORM TSD

| Payment recipient           |                                |         | Payment |        | A1/E101 country |
|-----------------------------|--------------------------------|---------|---------|--------|-----------------|
| personal ID code in Estonia | name or first name and surname | country | type    | amount |                 |
| 2000                        | 2010                           | 2020    | 2030    | 2040   | 2060            |
| 98765432100                 | Maris                          | LV      | 120     | 1800   |                 |

| Amount subject to social tax | Social tax | Payment subject to unemployment insurance premium | Unemployment insurance premium | Unemployment insurance premium withheld | 2070 | 2110 | 2120 | 2130 | 2140 |
|------------------------------|------------|---|--------------------------------|---|------|------|------|------|------|
| 1800                         | 594        | 1800  | 28.80                          | 14.40                                   |      |      |      |      |      |

| Amount subject to income tax | Tax exemption |        | Income tax rate | Amount of income tax withheld |
|------------------------------|---------------|--------|-----------------|-------------------------------|
|                              | type          | amount |                 |                               |
| 2150                         | 2154          | 2155   | 2160            | 2170                          |
| 1800                         | 610           | 166.67 | 20              | 320.91                        |



## EXCEPTIONS IN TAX CALCULATION

- ✘ If an employee is of the Estonian **retirement age**, unemployment insurance premium (code 2130) is not withheld at the rate of 1.6 % from payment (28.80 euros in the example).
- ✘ If form **A1** "Certificate concerning the social security legislation which applies to the holder" has been issued to an employee from a foreign country (country of the European Economic Area (Member State of the EU, Iceland, Liechtenstein, Norway) or Switzerland; Latvia in the example) the country has to be indicated in code 2060 and Estonian **social tax is not calculated** in code 2110 (594 euros in the example) nor **unemployment insurance premiums** in code 2130 (28.80 euros in the example) nor in code 2140 (14.40 euros in the example).  
If work was done in Estonia, the **payment type** has to be 121

## BASIC EXEMPTION CANNOT BE APPLIED

- ✘ If there is **no valid certificate of tax residency** certified by the tax authorities of a country of the European Economic Area (Member State of the EU, Iceland, Liechtenstein, Norway; Latvia in the example), it is **not allowed to apply the basic exemption** amount in codes 2154 and 2155 (166.67 euros in the example).
- ✘ Upon calculating the withheld income tax in Estonia, the basic exemption **cannot be applied** (in codes 2154 and 2155) on payments made to tax residents of **third countries** (countries not mentioned in the previous clause).

## TAX CALCULATION

- ✓ Social tax  $1800 \times 33\% = 594$  euros
- ✓ Withheld unemployment insurance premium  $1800 \times 1.6\% = 28.80$  euros
- ✓ Employer's unemployment insurance premium  $1000 \times 0.8\% = 14.40$  euros
- ✓ Withheld income tax  $(1800 - 28.80) \times 20\% = 354.24$  euros
- ✓ Basic exemption of 500 euros cannot be applied and codes 2154 and 2155 are not filled in on annex 2.

**Net payment of 1416.96 euros** ( $1800 - 28.80 - 354.24$ ) is made to Maris's bank account.

## 3. Non-resident employee's employment income above 2100 euros per month

### 3. Non-resident employee's employment income above 2100 euros per month

**Employee with an employment contract, wages or salaries or other similar payment above 2100 euros (payment type 120).**

*Olle is a Swedish tax resident receiving remuneration for work according to an employment contract in the gross amount of **2500 euros** per month. He is not of Estonian retirement age.*

*In this example, when calculating income tax to be withheld on payment, **it is not allowed to apply the basic exemption** (regardless of the total annual income of a non-resident and regardless of the country in which the recipient is a resident for tax purposes).*

**With a payment above 2100 euros, the basic exemption cannot be applied.** Although the employee has submitted an application for applying the basic exemption in the amount of 500 euros per month, the employer may apply the basic exemption only to the amount permitted by law.

Mandatory funded pension contributions (II pillar) cannot be withheld from payments made to a non-resident recipient.

#### TAX CALCULATION

- ✓ Social tax  $2500 \times 33\% = 825$  euros
- ✓ Withheld unemployment insurance premium  $2500 \times 1.6\% = 40$  euros
- ✓ Employer's unemployment insurance premium  $2500 \times 0.8\% = 20$  euros
- ✓ Withheld income tax  $(2500 - 40) \times 20\% = 492$  euros

**Net payment of 1968 euros** ( $2500 - 40 - 492$ ) is made to Olle's bank account.

#### DECLARATION IN ANNEX 2 OF FORM TSD

| Payment recipient           |                                |             | Payment     |             | A1/E101 country |
|-----------------------------|--------------------------------|-------------|-------------|-------------|-----------------|
| personal ID code in Estonia | name or first name and surname | country     | type        | amount      |                 |
| <b>2000</b>                 | <b>2010</b>                    | <b>2020</b> | <b>2030</b> | <b>2040</b> | <b>2060</b>     |
| 98765432100                 | Olle                           | SE          | 120         | 2500        |                 |

| Amount subject to social tax | Social tax | Payment subject to unemployment insurance premium | Unemployment insurance premium | Unemployment insurance premium withheld | 2070 | 2110 | 2120 | 2130 | 2140 |
|------------------------------|------------|---|--------------------------------|---|------|------|------|------|------|
| 2500                         | 825        | 2500  | 40                             | 20                                      |      |      |      |      |      |

| Amount subject to income tax | Tax exemption |             | Income tax rate | Amount of income tax withheld |
|------------------------------|---------------|-------------|-----------------|-------------------------------|
|                              | type          | amount      |                 |                               |
| <b>2150</b>                  | <b>2154</b>   | <b>2155</b> | <b>2160</b>     | <b>2170</b>                   |
| 2500                         |               |             | 20              | 492                           |

#### EXCEPTIONS IN TAX CALCULATION

- ❖ If an employee is of the Estonian **retirement age, unemployment insurance premium** (code 2130) is not withheld at the rate of 1.6 % from payment (20 euros in the example).
  
- ❖ If **form A1** "Certificate concerning the social security legislation which applies to the holder" has been issued to an employee from a foreign country (country of the European Economic Area (Member State of the EU, Iceland, Liechtenstein, Norway) or Switzerland; Sweden in the example) the country has to be indicated in code 2060 and Estonian **social tax is not calculated** in code 2110 (825 euros in the example) **nor unemployment insurance premiums** in code 2130 (40 euros in the example) nor in code 2140 (20 euros in the example).  
If work was done in Estonia, the **payment type has to be 121**.

## 4. Non-resident receives different types of income within the same month

### 4. Non-resident receives different types of income within the same month

Pavel is a Polish tax resident. In addition to remuneration for work in the gross amount of **1700 euros** per month according to the employment contract, he received other income in the amount of **800 euros** in March. In March, he received **2500 euros** in total. Pavel has **submitted an application to the employer for applying the basic exemption** and a certificate of tax residency confirmed by the Polish tax authorities to the Estonian Tax and Customs Board. Previously, the basic exemption has been applied to Pavel's income on a monthly basis.

If a non-resident who is resident in a Member State of the European Economic Area (Member State of the EU, Iceland, Liechtenstein, Norway) receives several types of payments in the same calendar month, different types of payments are added up for the purposes of applying the Estonian basic exemption. In March, the payment to Pavel exceptionally amounts to 2500 euros, to which the **basic exemption** in code 2155 **cannot be applied**.

#### TAX CALCULATION

- ✓ Social tax  $1700 \times 33\% = 561$  euros
- ✓ Withheld unemployment insurance premium  $1700 \times 1.6\% = 27.20$  euros
- ✓ Employer's unemployment insurance premium  $1700 \times 0.8\% = 13.60$  euros
- ✓ Withheld income tax  $(1700 - 27.20) \times 20\% + 800 \times 0 = 334.56$  euros

**Net payment of 2138.24 euros** ( $2500 - 27.20 - 334.56$ ) is made to Pavel's bank account.

#### DECLARATION IN ANNEX 2 OF FORM TSD

| Payment recipient           |                                |         | Payment |        | A1/E101 country |
|-----------------------------|--------------------------------|---------|---------|--------|-----------------|
| personal ID code in Estonia | name or first name and surname | country | type    | amount |                 |
| 2000                        | 2010                           | 2020    | 2030    | 2040   | 2060            |
| 33876543210                 | Pavel                          | PL      | 120     | 1700   |                 |
| 33876543210                 | Pavel                          | PL      | 197     | 800    |                 |

| Amount subject to social tax | Social tax | Payment subject to unemployment insurance premium | Unemployment insurance premium | Unemployment insurance premium withheld | 2070 | 2110 | 2120 | 2130 | 2140 |
|------------------------------|------------|---|--------------------------------|---|------|------|------|------|------|
| 1700                         | 561        | 1700  | 27.20                          | 13.60                                   |      |      |      |      |      |

| Amount subject to income tax | Tax exemption |        | Income tax rate | Amount of income tax withheld |
|------------------------------|---------------|--------|-----------------|-------------------------------|
|                              | type          | amount |                 |                               |
| 2150                         | 2154          | 2155   | 2160            | 2170                          |
| 1700                         |               |        | 20              | 334.56                        |

## 5. Non-resident receives remuneration paid for providing services on the basis of a contract under the law of obligations

### 5. Non-resident receives remuneration paid for providing services on the basis of a contract under the law of obligations

**A person providing services according to a contract under the law of obligations receives a remuneration in the amount of 1200 euros (code 123). This person's income is subject to tax exemption arising from a convention for the avoidance of double taxation with respect to income tax concluded between Estonia and another country.**

*Diana is a German tax resident who is paid **1200 euros** (gross amount) for services provided in the territory of Estonia on the basis of a contract under the law of obligations. Diana is in Estonia for a short time.*

As Estonia and Germany have concluded a convention for the avoidance of double taxation with respect to income tax (tax treaty), according to which (article 14) such income for services in Estonia **will not be taxable** in Estonia, unless a fixed base is regularly available to the service provider in Estonia.

**Valid data of a certificate** of the German tax residency confirmed by the German tax authorities is entered in the database of the Estonian Tax and Customs Board. Thus, the tax exemption arising from the tax treaty is applied (tax rate 0% is indicated in code 2160 and the amount of withheld income tax in code 2170 is also 0).

As Germany is a Member State of the EU, and there is a valid certificate of Diana's tax residency confirmed by the German tax authorities submitted to the Estonian Tax and Customs Board, the Estonian employer may apply the basic exemption as prescribed in the Estonian Income Tax Act when calculating the Estonian income tax to be withheld on the payment. However, since the payment is already subject to tax exemption under the tax treaty, there is no need to apply the basic exemption under Estonian law in codes 2154 and 2155.

**Diana is therefore not required to submit an application** for applying the Estonian basic exemption, as the payment is already exempt from tax due to the tax treaty.

Diana has an **A1 form** certifying the social security of Germany, i.e. **social tax and unemployment insurance premiums** are also not paid in Estonia. In this case, the payment type is 124.

If the person has **both the certificate of tax residency and form A1** and if there is no actual tax liability

on the payment in Estonia, the payer **must still declare the income** of a German resident in **Annex 2 to the form TSD**.

If the payment recipient has been registered as a **sole proprietor** in Estonia or another Member Country of the European Economic Area (Member State of the EU, Iceland, Liechtenstein or Norway; Germany in the example) and if there is an A1 form, then **the payer is exempted from declaring the payment in annex 2 of the form TSD**. The recipient declares the possible tax obligation in Estonia. Thus, if Diana is registered as a sole proprietor in Germany, Diana will declare the possible Estonian tax liability herself.

#### TAX CALCULATION

✓ Withheld income tax  $1200 \times 0 = 0$  euros

Net payment of **1200 euros** (1200–0) is made to Diana’s bank account.

#### DECLARATION IN ANNEX 2 OF FORM TSD

| Payment recipient           |                                |             | Payment     |             | A1/E101 country |
|-----------------------------|--------------------------------|-------------|-------------|-------------|-----------------|
| personal ID code in Estonia | name or first name and surname | country     | type        | amount      |                 |
| <b>2000</b>                 | <b>2010</b>                    | <b>2020</b> | <b>2030</b> | <b>2040</b> | <b>2060</b>     |
| 55577899900                 | Diana                          | DE          | 124         | 1200        | Germany         |

| Amount subject to income tax | Tax exemption |             | Income tax rate | Amount of income tax withheld |
|------------------------------|---------------|-------------|-----------------|-------------------------------|
|                              | type          | amount      |                 |                               |
| <b>2150</b>                  | <b>2154</b>   | <b>2155</b> | <b>2160</b>     | <b>2170</b>                   |
| 1200                         |               |             | 0               | 0                             |

#### TAX CALCULATION WITHOUT A VALID CERTIFICATE OF TAX RESIDENCY

If the recipient of the payment **does not have a valid certificate of tax residency**, it is not allowed to apply:

- ✘ **tax exemptions** arising from the tax treaty (income tax rate is 20% in code 2160)
- ✘ the basic exemption according to the Estonian Income Tax Act (in codes 2154 and 2155).

Withheld income tax is  $1200 \times 20\% = 240$  euros.

**Form A1** certifying social insurance in Germany **is submitted**.

**Net payment of 960 euros** (1200–240) is made to Diana's bank account.

DECLARATION IN ANNEX 2 OF FORM TSD

| Payment recipient           |                                |         | Payment |        | A1/E101 country |
|-----------------------------|--------------------------------|---------|---------|--------|-----------------|
| personal ID code in Estonia | name or first name and surname | country | type    | amount |                 |
| 2000                        | 2010                           | 2020    | 2030    | 2040   | 2060            |
| 55577899900                 | Diana                          | DE      | 124     | 1200   | Germany         |

| Amount subject to income tax | Tax exemption |        | Income tax rate | Amount of income tax withheld |
|------------------------------|---------------|--------|-----------------|-------------------------------|
|                              | type          | amount |                 |                               |
| 2150                         | 2154          | 2155   | 2160            | 2170                          |
| 1200                         |               |        | 20              | 960                           |